OXFORD ANALYTICA

COLOMBIA

MONETARY TRANSPARENCY

Country Report 2005

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COLOMBIA

COMPLIANCE RATINGS

Monetary transparency	*2005*	*2004*	*2003*	*2002*
Clarity of roles	●●●●	●●●●	●●●●	●●●●
Open decision process	●●●●	●●●●	●●●●	●●●
Availability of information	●●●●	●●●●	●●●●	●●●●
Central bank accountability	●●●●	●●●●	●●●●	●●●●
Score	**4.00**	**4.00**	**4.00**	**3.75**

OUTLOOK & COMMENTARY

There has been increased political pressure by the government on the Bank of the Republic (*Banco de la Republica* -- BanRep) over the past year. This is of particular concern given that the amendment to the constitution to allow re-election was approved, allowing President Alvaro Uribe to run for a second term. With his consistently high popularity ratings, it is widely assumed that he will be re-elected. Should he do so, Uribe would be able to appoint an additional two members of the Monetary Board of Directors (two are elected per presidential term). However, no institutional checks have been put in place, thus far at least, to guard against any possible threats to the independence of the BanRep through political appointments in the future.

There have also been political pressures on the central bank to use the international reserves to allow the government to pre-pay external debt, and there has also been pressure to defend an exchange rate floor, which some worry compromises inflation targeting. BanRep maintains that it has not yielded to political pressures from the government, but in the face of increasing concerns voiced by some, it will be important for BanRep to visibly maintain its reputation for high levels of independence and professionalism, particularly should President Uribe be re-elected in 2006.

EXECUTIVE SUMMARY

4.00 Compliance in progress

There has been increased political pressure by the government on the Bank of the Republic (*Banco de la Republica* -- BanRep) over the past year and some have suggested that BanRep's high levels of operational autonomy have been compromised to an extent. This is of particular concern given that an amendment to the constitution to allow re-election of the President of Colombia was approved in October 2005, allowing President Alvaro Uribe to run for a second term.

The president is allowed to appoint two of the seven members of the Board of Directors per term. Should Uribe be re-elected, he would appoint two members of the board three years from now (this is in addition to the three he has already appointed and any members who resign or retire). The central bank has a very solid technocracy, and internal controls should protect against political pressures to a significant degree. However, the constitutional amendment is an institutional change, so it is important to put in place institutional checks to guard against any possible threats to the independence of the BanRep through appointments in the future when there may be different people, possibly with less professional integrity and a different culture in the central bank. No such checks have been formally proposed so far.

Another concern has been the government and Congress urging the central bank to use 5 billion US dollars of the net international reserves (NIR) to prepay external debt. A politically motivated NIR operation, if not properly tackled, could hamper the independence of the central bank. Ultimately BanRep yielded to this pressure by saying that it could spare 500 million US dollars. However, dollars continued to flow into the country and the reserves continued to grow, which gave Congress some leeway to ask for those 'extra' reserves to pay more debt.

There have also been pressures on exchange rate arrangements. In December 2004, President Uribe threatened to declare a state of emergency if the central bank did not fix an exchange rate floor. Certain members of the Cabinet decided not to support the initiative by the president and thus it was not declared, rather the notion of defending Uribe's stated desired exchange rate floor was put in place. This has led to increasing opaqueness, as the peso is not being allowed to float entirely freely and commentators maintain that there is a degree of 'financial engineering' to maintain the floor. The result has not been too worrisome thus far, but this is an area to watch. The BanRep maintained that the recent sale of reserves to the government was their initiative, supported by the IMF, in exchange for bonds in order to assure the intervention was sterilized.

The BanRep has continued to follow an inflation-targeting framework (the inflation target being BanRep's primary objective), and inflation currently lies in the middle of the target corridor. Commentators did express concern that, with the peso not floating freely and with questions over political pressures on BanRep, the effectiveness of the inflation-targeting framework may be compromised to some extent in the future.

The BanRep observes the IMF Special Data Dissemination Standard (SDDS) for monetary data within its responsibilities, and produces a comprehensive range of information on monetary policy and overall macroeconomic conditions. BanRep's website is regularly updated with information, reports, legislation and board decisions, as well as economic and financial data, and regular press releases with information on monetary policy decisions. Changes in the setting of monetary policy instruments (other than fine-tuning measures) are publicly announced and explained in a timely manner. BanRep has strengthened its communication with the financial community over the past year.

Colombia's overall score is unchanged from last year.

1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES OF CENTRAL BANKS

●●●● Compliance in progress

The objectives and institutional framework of monetary policy

Colombia has a well-established institutional framework that governs the setting of monetary policy. The 1991 Constitution of Colombia provides for an independent Bank of the Republic (*Banco de la Republica* -- BanRep)[1] with the authority to implement monetary policy, and to regulate foreign exchange and financial markets. The Central Bank Law (LBR)[2] of 1992 further develops the legal framework contained in the constitution, while the BanRep's own statutes determine internal procedures.

Central bank objectives and responsibilities

The 1991 Constitution of Colombia sets policy objectives for the central bank. Its primary responsibility is to safeguard the purchasing power of the national currency. In this context, the control of inflation is the chief objective of monetary policy.[3] The LBR also requires the use of inflation targets to achieve price stability, with each year's targets typically set below the previous year.[4]

Operational autonomy

The constitution and Article 1 of the LBR provide for an independent central bank with financial, operational and technical autonomy from other branches of the state. The BanRep is subject only to its own legal regime, which is set out in the constitution, the LBR and additional BanRep statutes.

The president is allowed to appoint two of the seven members of the Board of Directors per term. An amendment to the constitution to allow re-election of the President of Colombia was approved in October 2005, allowing President Alvaro Uribe to run for a second term, and with his consistently high popularity ratings, it is widely assumed that, barring a major negative, unforeseen event, he will likely win the election. This is a concern in that he would then appoint two more members of the BanRep board three years from now (this is in addition to any members who resign or retire). Having already appointed three board members, Uribe's appointees to the board would amount to five out of the seven. As the board elects their governor, a majority on the board carries influence here too. The appointment of the two further board members will, however, be at the *end* of the president's second term, so for the bulk of his second term he will not have a majority of appointees on the board. The president would need a third term to really control the board in terms of appointments.[5]

Concerns have also grown over the past year over increased political pressures placed on the central bank by the government, specifically by President Uribe. Over the past year, the government and Congress have urged the central bank to use 5 billion US dollars of the net international reserves (NIR) to prepay external debt.6 A politically motivated NIR operation, if not properly tackled, could hamper the independence of the central bank. Ultimately BanRep yielded to this pressure by saying that it could spare 500 million US dollars (rather than 5 billion US dollars), to prepay external debt. However, dollars continued to flow into the country and the reserves grew, which gave Congress some leeway to ask for those 'extra' reserves to pay more debt. Having once yielded to political pressure from Congress, BanRep found itself cornered and victim to its previous technical explanations regarding the amount of NIRs that could be 'spared' for pre-paying external debt, opening the door for further pressure.[7]

There have also been pressures on exchange rate arrangements. In December 2004, President Uribe threatened to declare a state of emergency if the central bank did not fix an exchange rate floor, and he indicated the exchange rate floor he wanted (2,300 pesos to the US dollar). Certain members of the Cabinet decided not to support the initiative by the president (their signatures would be needed to sign a state of emergency) and thus it was not declared. Rather the notion of defending the 2,300 exchange rate floor was put in place. This effectively 'opened a door that is difficult to close'. This has led to increasing opaqueness, as the peso is not being allowed to float freely.[8] BanRep, however, judges that it would be an error in the short to medium term to allow an entirely free-floating exchange rate.

Commentators maintained that BanRep has yielded to political pressure in three main ways: the international reserves; the exchange rate floor; and current 'financial engineering' to maintain the floor (and the prevention of a free-floating forex). The result has not given too much cause for concern thus far, but it has the potential to result in future problem, which should be watched for.[9]

The BanRep maintained that the recent sale of reserves to the government was their initiative, supported by the IMF, in exchanges for bonds in order to assure the intervention was sterilized and prevent growth of the money supply. BanRep maintained that their problem became convincing the government to sell bonds to the BanRep in exchange for reserves.[10]

If President Uribe is re-elected these political pressures on the central bank will likely mount. BanRep has a strong reputation as an independent, professional central bank, so it will need to work to ensure this reputation is not damaged by yielding to any further political pressure. At least, however, the president's opinions, statements, and any pressure he exerts on the BanRep are all presented publicly and in a relatively open manner.[11]

Institutional relationship between monetary and fiscal operations

The constitution and the LBR both call for the coordination of macroeconomic policy between the central bank and the executive branch of government. This coordination is planned every year during the process of designing the overall macroeconomic programme, and the policy framework is then set out in the government's *Annual Macroeconomic Plan*, issued by the Council of Economic and Social Policy (CONPES).[12] However, in the event of conflict between fiscal and monetary authorities and their respective objectives, the LBR stipulates that the objective of price stability should take priority.[13] The minister of finance chairs the BanRep Board of Directors, thereby reinforcing the principle of monetary and fiscal coordination. The minister of finance does not have veto or preferential voting powers.

In Decision C481 of 1999, the Constitutional Court determined that the *National Development Plan* should provide a broad scenario for the coordination of fiscal and monetary policies among the different branches of government.[14] Since the *National Development Plan* is subject to legislative approval, in practice the court's decision brings Congress into the policymaking process. However, the court's ruling also established clear limits to congressional influence on monetary policy by limiting the content of the plan to the broad objectives of policy, and leaving the Board of Directors in control of monetary policy instruments.

Concerns remain as to whether some of the assumptions used in the financial programming exercise, such as the establishment of a target exchange rate level, constrain the BanRep Board of Directors in their monetary and foreign exchange interventions. This potential conflict of interests was evident in mid-May 2003, when President Alvaro Uribe repeatedly expressed his concern about the strengthening of the peso against the dollar, urging the central bank to secure exchange rate competitiveness in order to sustain exports and overall employment. In turn, BanRep officials stated that the central bank would implement dollar auctions to keep the exchange rate at 'adequate levels' while stressing the negative impact of a strong peso on debt servicing. As noted above, commentators stated that pressure from the executive on exchange rate arrangements has continued over the past year, with President Uribe having pressured BanRep into maintaining an exchange rate floor.[15]

The BanRep, the Ministry of Finance, and the National Planning Department develop independent forecasts and baseline scenarios to set the inflation target and fiscal objectives. Monetary authorities use the projected spending and fiscal results to determine the baseline scenario for monetary policy. The executive does likewise for fiscal policy using the inflation target. If the baseline scenarios for monetary and fiscal policy lack coherence, the technical staff of the BanRep and the government review alternative spending cuts and different inflation, output growth, and exchange and interest rates scenarios. The BanRep Board of Directors then submits the final version of the financial programming exercise for study and approval.[16]

The BanRep is consulted on domestic and foreign public debt operations. The central bank also issues the regulatory framework that governs the participation of all government agencies and entities in the purchase and issue of debt titles, in order to ensure that these transactions are performed according to market principles.

Lending to government

Article 373 of the constitution establishes that the BanRep may only lend to the government with unanimous consent of the Board of Directors. Articles 12 and 13 of LBR establish that the central bank may carry out lender of last resort operations to state-owned financial institutions and that it may guarantee financial operations by the government, respectively. However, the LBR does not establish explicit quantitative ceilings or restrictions on lending to the government which, for example, could be related to a percentage of the federal government's expenses as arranged in the annual budget.

Central bank involvement in the rest of the economy

In order to achieve its inflation targets, the BanRep has the authority to regulate financial markets and manage monetary aggregates, interest rates, and foreign exchange. The BanRep also has authority to act as intermediary between foreign and domestic financial institutions, and to take deposits and carry other financial services with the sole authorisation of the Board of Directors. In addition, Article 36 (b) of the LBR establishes that the Board of Directors is empowered to allocate responsibilities according to which the central bank must contract the acquisition or sale of BanRep assets and the procurement of all types of services.

The central bank has a group of international banks that manages its international reserves. As part of a five-year programme, BanRep recently pushed its external administrators to improve productivity by imposing a system of performance-based fees whereby they must compete against each other.

Central bank profit allocation

Article 27 (d,e) of the LBR sets down the principles for the allocation of central bank profits and losses, and the BanRep statutes add further detail.[17] Part of the profits is allocated to a reserve fund aimed at covering any future losses. The remaining profits (or any losses not covered by the reserve fund) accrue to the Treasury. BanRep authorities are required to determine the balance of central bank operations at least once a year, and profits are calculated and distributed during the first quarter of the following fiscal year.[18]

Agency roles performed by the central bank on behalf of the government

The BanRep is authorised to act as fiscal agent in foreign lending operations, and in issuing and administrating public debt titles. The central bank is also authorised by the LBR and its statutes to receive and administer resources owned by the national government and any government entity.

2. Open Process for Formulating and Reporting Monetary Policy Decisions

●●●● Compliance in progress

The framework, instruments and targets of monetary policy

Although the BanRep had adopted inflation targets since the 1992 reform, the current framework -- in which the inflation target is the main policy objective -- started in 1999 when a floating exchange rate was adopted. Historically, the central bank had missed its inflation targets, largely because it was working towards several policy objectives, of which the inflation target was only one. However, the monetary policy framework has undergone a gradual transition to a standard inflation-targeting framework, in which the currency floats and monetary interventions are closely focused on a reference overnight interest rate.

The BanRep has continued to follow an inflation-targeting framework during 2005. Inflation-targeting framework works well if two assumptions are in place: a floating exchange rate and the independence of the central bank. As there have been some questions over these two aspects of late, commentators were concerned about the future effectiveness of the inflation-targeting framework. BanRep is openly not floating the peso entirely freely, though the stated main priority of the BanRep is inflation targeting.[19]

The average inflation in the last twelve months has been 5.16. The end-of-year target is between 4.5 and 5.5, so it is on target. BanRep argues that an entirely free-floating currency would be a grave error, both now and in the medium-term, noting that the appreciation of the peso has been stronger than expected over the last twelve months. As a result the central bank has switched from the use of options to discretionary intervention to be more effective. There is also agreement within the BanRep (at the technical level) that excessive appreciation of the peso is not desirable, so there is a readiness to intervene in the exchange rate market so long as this is subordinated to the inflation objective. BanRep judged that it could do this while core inflation is at the level it is, allowing it to have a lax monetary policy together with sterilized intervention.[20]

In terms of support for inflation targeting, the yield curve has been moved from an average of three years (in 2000) to 15 years in 2005. By increasing the duration of the bond portfolio the interests of bondholders were aligned with those of the BanRep. Given that the financial sector's portfolio is today heavily bond denominated, this means that the entire financial system would be negatively affected if the government put any pressures on the BanRep to do anything that could hurt inflation targeting. However, while the financial sector may support BanRep in protecting the inflation-targeting framework, the real sector is likely to do the opposite given the need for competitive exports.[21]

Framework and monetary targets

Inflation targeting is focused on changes in the consumer price index. The BanRep also monitors core inflation, which excludes products that can be subject to considerable variation owing to economic changes and cyclical demand. Since 2000, the monetary authorities have adopted a two-year target to better accommodate lags between policy implementation and the effect on inflation, replacing the earlier practice of an inflation point target that had been in use since 1992.[22] Intervention rules for monetary policy are clear and participation of the central bank in the market is disclosed on a daily basis.

Monetary instruments

The most important monetary instrument is the interest rate on the central bank's repo and reverse-repo operations, which is used to control liquidity and signal the monetary stance. The Board of Directors determines the minimum and maximum interest rates for the repo and reverse-repo auctions. In turn, the scale of open market operations is determined every month according to estimates of the demand for liquidity measured by the base money reference line and the supply of base money through expected open market operations, central bank interventions in the foreign exchange market, lender of last resort operations, and the BanRep balance sheet.

There has been a gradual narrowing of the range of the policy rates as the monetary policy strategy has become clearer and has contributed to strengthening the link between the policy rates, the overnight rate and longer term rates. A detailed description of the central bank's monetary framework, instruments, forecast models and reaction strategy is available for public consultation, although only as working papers of the BanRep staff.[23] Monetary transparency would be increased if this information were posted on the website with a separate hyperlink.

The BanRep intervenes in foreign exchange markets and the secondary government bond market to provide liquidity. For interventions in the foreign exchange market, the central bank has three intervention rules. First, to manage financial liquidity, the BanRep exercises call and put options whenever the spot exchange rate differs from the mobile average of the past 20 days. Second, the central bank can intervene in foreign exchange markets to reduce volatility whenever the spot rate differs by more than 4% from the mobile average of the past 20 days. The aggregate value of BanRep foreign exchange transactions is disclosed at the end of the day in a press release. Finally, intervention in the government bond market generally follows clear rules, with transactions taking place through the electronic exchange mechanism.[24]

The BanRep is moving to securitisation of corporates and lending custodies and is consolidating the trend in inflation targeting and floating the peso.

Changes in the setting of monetary policy instruments (other than fine-tuning measures) are publicly announced and explained in a timely manner. The BanRep publishes a quarterly inflation report and a bi-annual financial stabilisation report. It also reports twice a year to Congress on the balance of payments, monetary policy and coordination with fiscal policy. It reports monthly to the public to explain any changes in the monetary stance, and it always publishes a press release after every board meeting. With regard to inflation targeting the BanRep helps forecast and tame monetary expectations.

According to BanRep officials, some key assumptions and likely policy outcomes are laid out to a greater extent than they should be. For this reason the central bank is backtracking a little in giving so much detailed information on expectations (for example, publishing the quarter by quarter repo rate forecasts because of changes in the world's basic economic variables) and instead is flagging the current trends.[25] BanRep has introduced more caveats to the assumptions and forecasts it makes, and has decided not to publish forecasts of the interest rates but rather to verbally announce them. It has also stopped forecasting a specific number and now forecasts a range and a path.[26]

The monetary policy-making body

Monetary board

The Board of Directors includes the governor of the BanRep (who is not appointed by the president, but rather by the board, and is thus more accountable and independent), the minister of finance (who chairs the board), and five co-directors appointed by the president for a period of four years. The constitution and Law 31 of 1992 clearly specify the procedures for electing and removing the members of the Board of Directors. During a presidential term, the president is entitled to change two co-directors, and is required to replace any member who retires, resigns or dies.[27] The previous two administrations both appointed three board members towards the end of their term, who together with the minister of finance now constitute a majority on the board. President Uribe has appointed three members of the board thus far. Some commentators have argued that this mechanism threatens the operational independence of the central bank, since members' tenure coincides with the presidential cycle.[28] An amendment to the constitution to allow re-election for the President of Colombia was approved in October 2005, allowing President Alvaro Uribe to run for a second term, and with his consistently high popularity ratings, it is widely assumed that, barring a major negative, unforeseen event, he will likely win the election. This is a concern in if President Uribe were to be elected for a second term, as he is seeking, then he would appoint two more members of the BanRep board three years from now (this is in addition to any members who resign or retire). As the board elects their chairman, a majority on the board carries influence here too. The appointment of the two further board members will, however, be at the *end* of the president's second term, so for the bulk of his second term he will not have a majority of appointees on the board. The president would need a third term to really control the board in terms of appointments. The central bank also has a very solid technocracy, and internal controls should protect against political pressures to a significant degree. For example, the monthly inflation report has only three introductory pages written by the board, but the rest of the report is written by the technical team and is not vetted by the board.[29]

However, the constitutional amendment is an institutional change, so with re-election allowed, it is important to put in place institutional checks to guard against any possible threats to the independence of the BanRep through appointments in the future when there may be different people, possibly with less professional integrity, and a different culture in the central bank. There have been no moves as yet to put in place any kind of institutional checks, though there have been suggestions from outside the BanRep, for example, to lengthen the terms of the board members. The concern, however, is that any change that would require an amendment to the constitution would open up the possibility of Congress taking the opportunity to change other aspects of the law governing the BanRep, with the possible result of diluting the independence of the central bank, depending on the changes made. For example, there are sectors that would like to change the main objective and responsibility of the BanRep (that is, maintaining currency stability).[30]

The monetary board cannot meet in the absence of the minister of finance, or of a delegate who takes the chair in his/her absence.

Minutes of board meetings are not published until five years after the event, but a summary, including the considerations behind key decisions is published. However, when board decisions are not taken by overall consensus, those members who disagree with the adopted position can go public at any point and explain why they departed from a decision. The disagreements are then published in the BanRep journal. This has happened on several occasions. For example when Colombia floated the exchange rate in 1999, two members of the board went public, and most recently a board member went public to voice concern over President Uribe's pressure on the central bank to use international reserves.[31]

Advance meeting schedule

The BanRep does not produce an advance schedule of board meetings, although it traditionally sits every Friday.

Public statements on monetary policy

The BanRep's website contains regular press releases with information on monetary policy decisions. The central bank has published a monthly summary of board meetings since the early 1990s. In addition to decisions by the board, the central bank releases information on its open market interventions through daily press releases.

Periodic publications

The BanRep produces several periodical publications that provide information on monetary policy, financial and foreign exchange regulation and open market operations. These include the weekly newsletter *Estadisticas Monetarias y Cambiarias*[32] and the monthly magazine *Revista Mensual del Banco de la Republica*[33], which includes articles on topics of general economic interest and details of any regulations issued by the central bank.

The *Reporte del Emisor* reviews issues of importance for monetary policymaking, while the quarterly *Inflation Reports* explain monetary policy decisions in detail and assess future inflation risks.[34] As established in Article 5 of the LBR, the BanRep also reports to Congress twice a year -- at the start of the legislative sessions in March and July -- and its officials can be called before Congress whenever there is a substantial shift in monetary policy.

Public hearings

There is no formal public consultation mechanism on monetary policy and financial regulation, nor is there an established mechanism for incorporating external reviews or suggestions into the policymaking process. However, the BanRep public relations department does offer courses to interested journalists, in an effort to promote understanding of the methodology and strategy used by the central bank in seeking to achieve the inflation target.

Regulations on data reporting by financial institutions to the central bank

Article 18 of the LBR establishes that financial institutions and intermediaries must provide the central bank with any information it requests -- even information that it would normally give to the Superintendence of Banks. This provides for the central bank to plan open market operations and any intervention in the exchange market. In addition, based on this information the central bank determines the financial institutions' reserve requirements, details of which are made available on its website (in Spanish only).[35]

3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY

●●●● Compliance in progress

The BanRep sells the *Revista Mensual del Banco de la Republica*, which contains statistical information and all recent economic legislation. In addition, the BanRep issues a quarterly report on economic indicators -- *Indicadores Economicos Colombia* -- that contains data on the GDP, balance of payments, trade and foreign direct investment and foreign debt. This publication also provides details of monetary aggregates, price indices, exchange rates and public finances (in Spanish and English).

The central bank website provides quarterly GDP, employment and inflation data, balance of payments, public finances and financial data, including monetary aggregates, interest rates and stock exchange data.[36] The financial section also includes the analytical accounts of the central bank. Methodological notes on the compilation of data are available from the IMF Special Data Dissemination Standard (SDDS) website.

Commentators emphasised that information regarding procedures and intervention in the markets is very clear, and that the quality of aggregates is very high. They noted the professionalism of the BanRep.[37]

Release of central bank data

The BanRep releases monetary data in a timely and regular fashion, in accordance with its commitment to the IMF SDDS. Within the data that the central bank reports, Colombia is taking the extensive branch banking system flexibility for the timeliness of the data on the analytical accounts of the banking sector. Data publication is according to the advance release calendar available on the BanRep and IMF websites.[38]

The central bank balance sheet

In addition to the report to Congress, which includes six-month and annual balance sheets for the past year, the *Bank Review* includes monthly balance sheets for the last 24 months and annual data for the previous five years. The BanRep website provides six-month updates of the central bank balance sheet and statements on revenues and payments.[39]

Lender of last resort

The constitution and Article 12 of the LBR allow the central bank to act as lender of last resort for public and private credit institutions. Specific regulations and BanRep board decisions on lending operations are made available on the website in the sub-section on economic information.[40] Consolidated information on lending and liquidity operations is produced on the central bank balance sheet, as disbursements in the revenue and payment statements. Detailed information on all BanRep operations is also available through press releases published on the website.

Public information services

The central bank website is regularly updated with information, reports, legislation and board decisions, as well as economic and financial data. Additional information can be furnished on request from the research department. The

BanRep upgraded its English language website to include translations of the *Inflation Reports* and the board's report to Congress, but additional information on the monetary policy framework would enhance transparency. A webpage with contact details is available, in order to provide users with additional information upon request.[41]

The BanRep has strengthened its communication with the financial community as a whole over the past year. For example, BanRep will likely have to raise interest rates next year, but it is talking to the financial community all over the country in order to explain why. This is part of an explicit strategy to communicate targets, operational procedures, rules and objectives.[42]

4. Accountability and Assurances of Integrity by the Central Bank

●●●● Compliance in progress

Accountability before a designated public authority

The BanRep is accountable to Congress as stated in the constitution and the LBR, and is subject to external control by the executive and the Attorney General, as established in Articles 46 and 48 of the LBR.

Financial statement

The accumulated financial statements of the central bank are available on its website in March and September. These reports are prepared by central bank staff, and include the profits and losses disaggregated by type of intervention. International reserves and securities held by the central bank are valued at market prices.

Audited financial statement

Financial statements are subject to the audit and supervision of the Attorney General, who reports to the executive, the BanRep Board of Directors, Congress and the public.[43] The *Notes of the Financial Statement* provide details of the auditing process and the accounting practices followed by the central bank.[44]

External and internal audit

The President of the Republic appoints a Central Bank Auditor to audit the financial statement, with the Superintendent of Banks and Financial Institutions responsible for external control and supervision of the central bank. Since the fiscal year 2002, an independent external auditor is also appointed -- Deloitte & Touche's audit report for the 2002, 2003 and 2004 central bank statements is available on the BanRep website.[45] The Comptroller's office also oversees some aspects of the BanRep's operations.

Conduct of officials

Standards for the personal conduct of BanRep officials and staff are outlined in Articles 38-44 of the LBR. These requirements establish that central bank staff must comply with the LBR, bylaws and all internal BanRep regulations while exercising their duties. In addition, there is a disciplinary code (*Codigo Unico Disciplinario*) that applies to all public officials, including members of the central bank. However, the LBR does not explicitly establish the provisions under which BanRep Board members can be removed, except for the general guidelines established in Article 35.

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Colombia between 1 and 4 November 2005:

Bank of the Republic (BanRep)

3 November 2005

Juan Mario Laserna Jaramillo	Co-Director of the BanRep Board of Directors
Juan Mauricio Ramirez Cortes Subgerencia de Estudios Económicos	Director, Departamento de Pragramación e Inflación,

Ministerio de Hacienda (Ministry of Finance)

2 November 2005

Carolina Rentería Rodríguez	Director, Budget Office
Walfa Constanza Téllez Duarte	Sub-Director of Budget Analysis and Consolidation, Budget Office
Claudia Marcela Montealegre	Law Advisor, Budget Office
Luis Francisco Azcárate	Finance Advisor, Budget Office
Carolina Durana	Technical Support, Budget Office

ADDITIONAL INTERVIEWS

1 November 2005

Camila Pérez Marulanda	CONFIS Advisor (Government Council for Fiscal Policy)
Verónica Navas	CONFIS Advisor (Government Council for Fiscal Policy)

3 November 2005

Ms. Gory Suarez	Corporación Fondo De Apoyo De Empresas Asociativas (CORFAS)

4 November 2005

Sergio Clavijo	President of ANIF (Asociación Nacional de Instituciones Financieras) and former Co-Director of the BanRep Board of Directors

NOTES

[1] Banco de la Republica (BanRep): www.banrep.gov.co/engroot/home4.htm
[2] Law 31 of 1992 on the Banco de la Republica (LBR, in Spanish only): www.banrep.gov.co/junta/l31de1992.pdf
[3] Constitution of Colombia 1991, Title 12, Articles 371-73: www.senado.gov.co/Senweb/decripc/DESCONST.HTM
[4] LBR, Article 2.
[5] Interviews in Colombia, 1-4 November 2005.
[6] IMF, Colombia: Second Review Under the Stand-By Arrangement and Request for Waiver of Performance Criteria--Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Colombia, January 15, 2004 and interviews in Colombia, 1-4 November 2005.
[7] Interviews in Colombia, 1-4 November 2005.
[8] Interviews in Colombia, 1-4 November 2005.
[9] Interviews in Colombia, 1-4 November 2005.
[10] Interviews in Colombia, 1-4 November 2005.
[11] Interviews in Colombia, 2-5 November 2004.
[12] LBR, Article 4. See CONPES at: www.dnp.gov.co/03_prod/conpes/Conpes.htm
[13] LBR, Article 4.
[14] '*La autonomia del Banco de la Republica y el reciente fallo de la Corte Constitucional*' in 'Reportes del Emisor No. 6, July 1999': www.banrep.gov.co/docum/pdf/6.pdf
Plan Nacional de Desarrollo 2002-06 (in Spanish only): www.dnp.gov.co/01_CONT/POLITICA/PLAN.HTM
[15] Interviews in Colombia, 1-4 November 2005.
[16] Javier Gómez, José Darío Uribe, Hernando Vargas (2002), "The Implementation of Inflation Targeting in Colombia" Borradores de Economia 202, Banco de la Republica: www.banrep.gov.co/docum/ftp/borra202.pdf
[17] Statutes of the Bank of the Republic (Estatutos del Banco de la Republica, in Spanish only), Decree 2520 of 1993.
[18] Article 62 BanRep Statutes and Article 27 of the LBR.
[19] Interviews in Colombia, 1-4 November 2005.
[20] Interviews in Colombia, 1-4 November 2005.
[21] Interviews in Colombia, 1-4 November 2005.
[22] Interviews with BanRep officials in Dubai, 23 September 2003. The BanRep adopted an inflation target range of 5-6% for 2004, with a long-term inflation target of 3%.
[23] For example, see 'Monetary and Exchange Rate Policies in Colombia: Progress and Challenges' www.banrep.gov.co/junta/publicaciones/Clavijo/polmonen0303.pdf, and www.imf.org/external/pubs/ft/wp/2004/wp04166.pdf
[24] Interviews in Colombia, 21-27 November 2002. In August and September 2002, the central bank intervened to supply liquidity and contain losses suffered by financial agents following a surge in country risk. These interventions did not take place through the electronic action mechanism, but targeted specific types of financial institutions in what was considered to be a breach of intervention rules in the government bond market.
[25] Interviews in Colombia, 2-5 November 2004.
[26] Interviews in Colombia, 1-4 November 2005.
[27] Articles 34 and 35 of the LBR.
[28] Interviews in Colombia, 21-27 November 2002. See also Alesina Alberto, Carrasquilla Alberto and Steiner Roberto (2000) "The Central Bank in Colombia", Fedesarrollo, Working Papers Series. Documentos de Trabajo. No 13.
[29] Interviews in Colombia, 1-4 November 2005.
[30] Interviews in Colombia, 1-4 November 2005.
[31] Interviews in Colombia, 2-5 November 2004.
[32] www.banrep.gov.co/estad/rsemscm4.htm
[33] www.banrep.gov.co/prensa/publica4.htm
[34] Quarterly *Inflation Reports* (in Spanish only): www.banrep.gov.co/inflaci/home4.htm
[35] See *Encaje de los establecimientos de credito*, updated June 25, 2003 (in Spanish only): www.banrep.gov.co/reglam/encaje4.htm
[36] Economic Information -- Statistics: www.banrep.gov.co/econome/stats.htm
[37] Interviews in Colombia, 2-5 November 2004.
[38] Advance Release Calendar (in Spanish only): www.banrep.gov.co/economia/calendario-indice.htm and IMF website at: dsbb.imf.org/Applications/web/sddsctycatarclist/?strcode=COL

[39] '*Estados Financieros*' (in Spanish only): www.banrep.gov.co/banco/estados4.htm
[40] *Apoyos transitorios de liquidez* (in Spanish only): www.banrep.gov.co/reglam/atliq-4.htm
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